
L. R. B. & M. JOURNAL

VOLUME 23

NUMBER 2

MARCH, 1942

Published by
LYBRAND, ROSS BROS. & MONTGOMERY
Accountants and Auditors

Table of Contents

Buy Defense Bonds!	1
Recent SEC Developments in Accounting .	2
<i>By L. H. RAPPAPORT</i>	
Advice to Those About to Testify	9
Present Day Credit Problems	13
Tax Joys and Sorrows	14
Editorial:	
Natural Business Year	16
Notes	17



L. R. B. & M. JOURNAL

VOLUME TWENTY-THREE

MARCH, 1942

NUMBER TWO

Buy Defense Bonds!

Early in January our firm adopted a Pay Roll Allotment Plan for the purchase of United States Defense Bonds by the members of our organization. The plan met with an immediate response from a substantial number of employees. Some have not yet subscribed. Some of these who had already been making payments on bonds or buying Defense Stamps have delayed joining our plan until completion of the purchases previously undertaken, at which time they propose to authorize regular pay roll deductions under our plan.

The plan provides a means whereby employees may systematically invest part of their salaries in Defense Bonds with the minimum of inconvenience to themselves—the only requirement is the signing of an authorization form. The amount authorized is then deducted from the specified pay checks and as soon as the accumulated deductions equal the cost of the bond selected, an order is placed with the Federal Reserve Bank and the bond is delivered by registered mail direct to the employee. Employees may subscribe to the plan at any time, subject only to a minimum pay roll

deduction of \$1.00 each semi-monthly pay period.

Full page notices have appeared in recent issues of New York daily papers giving the names of business organizations which have subscribed to the United States Treasury's Pay Roll Savings Plan. Most of these names are well known to all of us, many of them being clients. One of these notices quoted in part, ". . . time being of the utmost . . . no fighting man can wait. The fighting you may do may be with arms, or with work and with dollars. But the fighting must be done . . . and done *now*."

It is our understanding that some concerns have been endeavoring to secure a 100 per cent enrollment of employees. We urge all those who have not yet subscribed to the plan to give it serious consideration. Subscribers will not only be investing their savings but they will also be patriotically supporting the United States Government in its great task of providing for the national defense.

We are being asked from time to time by Government agencies as to the number of employees on our

(Continued on page 8)

Recent SEC Developments in Accounting

BY L. H. RAPPAPORT

(New York Office)

The following statement of various SEC developments in 1941 and 1942 is by no means exhaustive, as to either content or treatment. It is intended to hit the high spots of such developments which should be of interest to accountants.

Accountants' Certificates

When the SEC promulgated Regulation S-X it did so with a warning that certain revisions might be necessary in the rules governing certification in view of the then pending proceedings in the matter of McKesson & Robbins and several other cases. When the McKesson report was finally issued, the Commission recommended among other things that the accountant's certificate should state as part of the description of the scope of examination every generally recognized auditing procedure which has been omitted and the reason for the omission.

The Commission also was of the opinion that the accountant should state that the examination which he made was not less than that necessary in order to form an opinion. Accountants may not be able to certify the correctness of the figures appearing on financial statements in the sense of guaran-

teeing their correctness but, said the Commission, accountants can express their opinion with respect to them and should certify that the examination was at least equal to professional requirements.

The amendments¹ to the Commission's rule respecting certificates were the subject of considerable correspondence and discussions between committees representing the various accounting associations and the Commission's staff. As a result of these conferences the Institute issued its statement² dealing with accountants' certificates. It is this bulletin which proposed the now familiar sentence in the standard certificate:

Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

While the foregoing sentence is intended primarily for certificates filed with the SEC, it is appearing with increasing frequency in the certificates of accountants in annual reports to stockholders.

¹ Accounting Series Release No. 21, February 5, 1941.

² Statements on Auditing Procedure, No. 5, February 1941.

Independence of Accountants

In an official release³ the SEC considered whether a public accountant is independent if he has entered into an indemnity agreement with a company whose statements bearing his certificate are filed with the Commission. In the case involved the board of directors of the registrant agreed to indemnify the accountants who certified the financial statements "from any and all losses, claims, damages, or liability arising out of such act or acts to which they may become subject under the Securities Act of 1933 or at common law, other than for their wilful misstatements or omissions." The chief accountant of the SEC stated that, in his opinion, in a case of this type one of the major stimuli to objective and unbiased consideration of the problems encountered in a particular engagement is removed or greatly weakened and held that the accountant could not be recognized as independent for the purpose of certifying the financial statements of the corporation filed with the Commission.

Early this year the SEC issued another opinion⁴ dealing with the independence of a certified public accountant. The accountant in question owned securities of his

client purchased at a total cost in excess of \$10,000. This amount was stated to be equivalent to about eight per cent of the net worth of himself and his immediate family. The Commission held that for the reasons indicated in prior opinions the possession of an interest by an accountant in the stock of his corporate client which is so substantial with respect to the accountant's total net worth is, of and by itself, sufficient to render the accountant lacking in independence with respect to that client.⁵

Further in support of its conclusion that the accountant in the case in question was not independent, the Commission pointed out that the accountant engaged in stock transactions, both directly in his own behalf and indirectly as a dummy for his client.

The Commission concluded that on the basis of the record the accountant's conduct was grossly

³ Readers will recall the Commission's opinion in 1937 (Accounting Series Release No. 2) to the effect that an accountant could not be deemed to be independent if he is, or has been during the period under review, an officer or director of the company, or if he holds an interest in the company that is significant with respect to its total capital or his own personal fortune. The Commission refused to hold a firm of public accountants independent, one member of which firm owned stock in a corporation that contemplated registration with the Commission, and based its refusal upon the fact that the value of such holdings was substantial and constituted more than one per cent of the partner's personal fortune.

⁴ Accounting Series Release No. 22, March 14, 1941.

⁵ Accounting Series Release No. 28, January 8, 1942.

improper. The Commission very properly held that great importance was attached to the requirement that financial statements filed with it be certified by public accountants who were in fact independent.

In a recent stop order proceeding⁶ under the 1933 Act the Commission considered, among other things, the status of a public accountant who certified the financial data in a registration statement filed with it. The accountant had been engaged originally to audit the accounts of certain affiliates, but as time went on his activities in behalf of his client were enlarged beyond the usual scope of an auditor's work. He arranged renewals of subsidiaries' loans, acted as accommodation payee, arranged for financing certain purchases, directed the placing of insurance, arranged for printing stationery and stock certificates, participated in the affairs of his client's customers, and served as an officer of affiliated companies. In addition, he had personal financial relations with companies in the affiliated group.

The accountant was paid a weekly "salary," had a social security number as an employee of one of the system companies and the tax was deducted from his weekly salary.

The Commission held that, "His close identity with the financial

destinies and his personal concern with the managerial policies of the System and its distressed customers were in conflict with the duties of an independent accountant. His designation as such . . . was materially false and misleading."

The independence of accountants was also the subject of comment by the SEC in a proceeding⁷ under the 1934 Act. In this case the accountants and their immediate families owned securities of the registrant of a substantial value and amounting to as much as 9 per cent of their net worth. Further, a member of the firm of accountants permitted the president of the registrant to conduct operations in the registrant's stock in the name of the accountant, although the latter had obtained from the president an indemnity against liability. The record also disclosed substantial loans between the accountants and the registrant's president and his family. On the basis of these and other facts, the Commission stated it had no hesitation in finding the accountants not independent.

"Quasi-Reorganization" Defined

In another official release⁸ the Commission discussed certain implications of the term "quasi-reor-

⁷ *In the Matter of . . . A. Hollander & Son, Inc.*, February 6, 1941.

⁸ Accounting Series Release No. 25, May 29, 1941.

⁶ *In the Matter of Southeastern Industrial Loan Co.*, November 29, 1941.

ganization" as used to describe the corporate procedure in the course of which a deficit from operations is charged to capital surplus. The release was helpful in giving the Commission's view that a quasi-reorganization may not be considered to have been effected unless at least all of the following conditions exist:

1. Earned surplus as of the date selected is exhausted;
2. Upon consummation of the quasi-reorganization, no deficit exists in any surplus account;
3. The entire procedure is made known to all persons entitled to vote on matters of general corporate policy and the appropriate consents to the particular transactions are obtained in advance;
4. The procedure accomplishes with respect to the accounts substantially what might be accomplished in a reorganization by legal proceedings—namely, the restatement of assets in terms of present conditions as well as appropriate modifications of capital and capital surplus, in order to obviate so far as possible the necessity of future reorganizations of like nature.

The question has been raised as to how often a corporation may write off its deficit in earned surplus. According to the SEC, "it is also implicit in a procedure of this kind that it is not to be employed recurrently but only under circumstances which would justify an actual reorganization or formation of a new corporation, particularly if the sole or principal purpose of the quasi-reorganization is the elimination of a deficit in earned surplus resulting from operating losses."

Certificates Required by the Investment Company Act

Where management investment companies register under the Investment Company Act of 1940, and retain custody of their securities or place them in the custody of a member of a national securities exchange, the Commission has laid down certain rules as to the examination of such securities by independent public accountants. In cases of this type the Commission requires that the investments be verified by "complete" examination at least three times each year by an independent public accountant, at least two of which shall be chosen by the accountants without prior notice to the company. A certificate of the accountant stating that he has made the examination is to be transmitted to the Commission.

The Chief Accountant of the SEC has stated⁹ that, in his opinion, a complete examination involves not only a physical examination of the securities themselves, or in certain cases confirmation, but also a reconciliation of the physical count or confirmation with the book records. Further, there is required an examination of the investment account and supporting records, including check or analysis of the security transactions since the last previous examination and the related entries.

⁹ Accounting Series Release No. 27, December 11, 1941.

While the certificate need not describe each step taken in the examination, the Chief Accountant stated that, in order to meet the requirements of the Commission's rules, the certificate, in addition to the description of the examination made, should set forth:

(a) The date of the physical count and verification, and the period for which the investment account and transactions were examined;

(b) A clear designation of the depository;

(c) Whether the examination was made without prior notice to the company; and

(d) The results of the examination.

For the assistance of practicing accountants, the Institute's Committee on Auditing Procedure issued a statement¹⁰ dealing with accountants' reports required by the above opinion of the SEC, and drafted a certificate which it believes covers such requirements.

Modification of Requirements Respecting Inventories

To avoid possible interruption in the production of war materials, the SEC announced¹¹ a change in its policy regarding verification of physical inventories by public accountants. The Commission ruled that where the customary taking of inventory including observance or test checking by auditors would

curtail production of war materials, such procedures may be omitted so long as all reasonable and practical alternative measures are taken by the company and its auditors to assure the substantial fairness of inventory amounts, and proper disclosure is made.

The Commission recognizes that, under present circumstances, in particular cases it may be impossible to take a satisfactory physical inventory without interruption in the production and delivery of war materials. It may also be impossible for the independent accountant to have physical contact with such inventory as normal auditing procedure calls for. In such circumstances it is the administrative policy of the Commission not to object to the omission of such procedures, provided all reasonable and practicable alternatives and additional measures are taken by the company and its accountants to support the amount at which the inventories are stated.

The Commission requires the company to indicate the necessity for omitting normal auditing procedures in a letter giving the following information:

(1) Priority ratings and the extent to which the company is engaged in war production;

(2) A statement as to whether normal procedures are to be followed in that portion of the inventory except war materials;

(3) The delay that would be caused by shutdown;

(4) A statement as to whether it is

¹⁰ Statements on Auditing Procedure No. 9, December 1941.

¹¹ Accounting Series Release No. 30, January 22, 1942.

feasible or practicable to take reasonably accurate inventories while the plants are in operation or at times when the plants are shut down for other purposes;

(5) If, at the time of the last physical inventory, it was necessary to make significant adjustments to reconcile the book and physical inventories, a summarized statement of the general nature and amounts of such adjustments.

In cases of this kind, compliance with the Commission's rules under Regulation S-X requires the accountant's certificate to contain the following information:

(a) A statement of the extent to which normal procedures as to inventories were omitted and the reasons for such omission;

(b) A statement as to the extent of the accounting records and controls as to inventories and as to whether the accountants consider them adequate;

(c) A description of the supplementary or extended procedures undertaken by the accountants in view of the absence of a physical inventory.

The application of this pronouncement of the Commission in practice will doubtless present some problems which cannot now be foreseen.

Simplified Registration Form Adopted

Further simplification of registration procedure under the Securities Act of 1933 was announced by the SEC with the publication of a new form for commercial and industrial companies. The form, known as Form S-2, is intended primarily for securities of small companies

although it may be used by larger companies for registration of equity securities and limited amounts of funded debt. The new form may not be used by companies with active subsidiaries or with a record of having succeeded to a going business or of having been in insolvency proceedings within the past three years.

Basically, the requirements for financial statements do not differ materially from those with which accountants are familiar but the new form makes a genuine contribution to simplification of the registration procedure in that it extends to certain additional classes of registrants the privilege of filing the prospectus as a basic part of the registration statement. This procedure is facilitated through the division of the form into two parts, one of which need appear only in the prospectus and the other of which calls for information which need not appear in the prospectus.

Disclosure of Circumstances Occurring After Date of Financial Statements

A recent opinion¹² by the SEC considers whether it is necessary to disclose in profit and loss statements increased labor costs effective since the period covered by the statement. In the particular case which was the subject of the opinion

¹² *In the Matter of Central Specialty Company*, February 3, 1942.

the increase in labor costs was due to the granting of wage increases and paid vacations to employees. The registration division of the Commission contended that the registration statement was materially misleading by reason of its omission to indicate by footnote to the profit and loss statement the increase in labor costs effective since the end of the period covered by the statement. It was also urged that the profit and loss statement was misleading by reason of its omission to disclose by footnote the possibility of a further increase in labor costs arising out of negotiations with union employees who had demanded wage adjustments.

The Commission held, however, that no charge had been made or proof submitted that the profit and loss statement did not reflect the results of operations for the period it purported to cover. The vacations and wage increases would increase labor costs by approximately nine per cent but it appeared from the record that this increase had already been offset by higher prices for the company's product. The Commission concluded that "we do not believe that the increased labor costs represent the type of 'extraordinary circumstances' occurring after the stated date of the financial statements which need be disclosed in those statements."

Buy Defense Bonds!

(Continued from page 1)

pay roll, the number who have subscribed to the Pay Roll Allotment Plan, the amount of the monthly contributions and the amount of Defense Bonds purchased. In order to make our showing as good as possible, those of our employees who are now buying Defense Bonds or Stamps through banks, post offices, etc., may wish to consider

transferring to our plan.

In conclusion, it may be pointed out that dollars invested in Defense Bonds perform double duty, once in financing our country's war effort and the other of building up an investment position which should be of great economic benefit to the investor in the postwar period.

H. H. D.

Advice to Those About to Testify*

1. Before witness is called, he should take steps to satisfy himself that he can remain upon the stand without discomfort until the judge feels the same way about a short intermission. He should also see that his appearance is as perfect as usual, paying particular attention to his tie. If necessary, finger tie several times. (Passing hand over hair, if any, is optional but is favored by many.)

2. Upon being called to the stand, move forward with a nonchalant air, take the oath with a serious mien, seat yourself with a carefully unstudied air of importance, right leg crossed over left, left hand in pocket, handkerchief peeping from breast pocket, right hand and forearm resting upon table, if any. Before answering first question, clear throat twice or three times. Do so snappily; don't gargle.

3. Moisten lips and state name in a clear, super-articulate voice.

**Editor's Note:* This list of injunctions to a prospective witness, which came to the attention of one of our offices, contains in intriguing form advice which may well be considered by any "expert"—whether accountant, engineer, appraiser or any other—who is called to the witness stand. Unfortunately, the editor has been unable to learn the identity of the wit—supposed to be a lawyer—who was the author of the memorandum.

State your age with an inflection that invites attention to your youthful looks, indicative of a virtuous and virile manhood. State your qualifications in the same manner as you would when explaining to your wife, intended wife, or other defenseless female what a really remarkable personage you are. When you come to state your present exalted position, glance haughtily and casually past a point eighteen inches above the head of opposing counsel to see if he is properly impressed. If opposing counsel is reading a paper, or scratching himself or otherwise fails to register awe, conclude in a loud voice "which position I still occupy."

4. Now the witness is ready for *direct* examination. The extent to which such examination is direct is discretionary with your counsel. Some counsel are less direct than others; in fact, this is usually the case.

Turn your head slightly and gaze placidly upon your counsel. Let it appear as if you regard him as a necessary evil and with a certain amount of indifference.

Ponder his questions carefully, as if you had never heard them before; then answer them precisely as previously arranged.

During this part of your act, a decided effort must be made to

convince everybody that you know the subject so well that you regard the questions as rather elementary and would just as soon answer much more difficult ones, if it would be any recommendation.

5. Do not begin answers by saying, "I think . . .". Witnesses are not supposed to think.

Should your counsel alter the agreed sequence of the questions, you must exercise care to see that you similarly alter the sequence of your answers; otherwise you may disconcert him. A disconcerted counsel is sometimes quite difficult for the witness to handle.

6. If opposing counsel suggests acidly that the witness is inaudible and ought to speak louder, beam upon the gentleman courteously and nod the head in dignified and tolerant indulgence of his auricular deficiencies. Answer the next three questions in a loud and strained voice and then return to your ordinary tones.

7. Do not use the word "empirical" unless you are sure that you can explain the meaning of that term upon request; inasmuch as you cannot be sure of this, it is better not to use the word. If you should inadvertently let out that you prorated something *arbitrarily*, sneeze immediately and wave a handkerchief to divert attention.

Should the hearing be held at a long table where your counsel sits

opposite to you, it is possible that at this point he may kick you violently upon the shins under the table. If so, acknowledge receipt by withdrawing legs with a charming smile and then repeat that you prorated it "*a bit hurriedly*" but you are sure that the result is absolutely correct.

8. At the conclusion of the direct examination your counsel, addressing opposing counsel in a Chesterfieldian manner, will say, "You may have the witness." Do not take these words seriously for you are to remain seated and, as a matter of fact, he doesn't have you at all, at least not for the time being. If, later on, he does have you, your counsel will register disgust. These words, therefore, must be accepted as part of the "politeness" of the legal fraternity, who are really quite amiable people in many respects.

9. You now turn toward the opposing counsel. Your features should wear an artless and engaging look. At this point tap the table firmly with the index and middle fingers so as to indicate keenness for the approaching fray.

10. Opposing counsel will probably begin by asking you some easy questions such as even you can readily answer, and he will receive your answers with manifest appreciation and gratitude. This will give you the idea that he has

formed a splendid impression of you personally from hearing your direct testimony; it will also indicate to you that he is really not a bad fellow; in fact in some respects he is probably better than your own counsel whose failure to agree with you on some important matters shows that he too has a weak side to his judgment, even though he is a nice chap in many ways.

11. As opposing counsel continues, however, he will soon endeavor to put over a few fast ones. He may ask you for example, "How long is a dog's hind leg?" Whereupon your counsel will jump up and object that the question is irrelevant, whereupon the presiding officer will have to be awakened and will ask that the question and objection be read to him. Whereupon the stenographer will read the question and the objection. Whereupon the presiding officer will murmur, "The witness may answer, if . . . he . . . knows" and go to sleep again.

Whereupon the buck is passed to you. If you say, "I don't know," opposing counsel will say, "Well, you know a dog has a hind leg, don't you? You have seen a dog's hind leg, haven't you? Now, is it eleven feet long? Is it five feet long? Is it four feet long? You know it is not four feet long, do you not?"

In cases of this kind it is well to show you have a *sound grasp* of

general principles by replying that, based upon your knowledge and experience, you are of the opinion that a dog's hind leg—(and here you may pause for a brief interval, effectively)—has, generally speaking, a length sufficient to reach from his body to the ground, provided, of course, that he is standing up, as you endeavored to make clear upon your direct examination. An answer like this, enunciating fundamental principles (in which you are good, of course) is likely to be quite disconcerting to opposing counsel and will probably cause his associates to pull his coat tails, a thing which of itself will aggravate his mental condition much more than anything the witness can do.

12. But if he should rally his forces and come back he will probably ask, "But I am assuming, and I want you to accept the hypothesis for the moment, that it is a *different* dog." In that event you are perfectly entitled to spar for time by asking, "You mean a different dog instead of the same dog?" To which he will reply with icy sibilancy, "Precisssssely."

Having, through this strange interlude, gained time to collect your ideas, you may reply by saying, "Of course I consider this a purely hypothetical and unlikely case, but if the dog were a different dog from the same dog and the leg were the same hind leg, the leg would be the same as the different

leg, provided, of course, that the different dog were different from the same dog so far as the same leg being different is concerned."

Whereupon five counsel on both sides will rise and say simultaneously, "May I have the answer read, if your Honor please?" The highest moment in the life of an expert witness arrives when he hears an answer of this kind read on cross-examination, which is entirely correct and utterly unintelligible. . . .

13. If opposing counsel asks you any question which tends to undermine the theory of your exhibits, you should say, "That question is irrelevant." This form of reply is especially well suited to hearings in the Federal Courts. If, after making this reply, you observe an astonished look upon the face of the presiding officer, it is well to add, "It is irrelevant and immaterial and I object to the question." This helps to make clear to your listeners that you have decided that the question is improper.

14. If there is a recess during progress of cross-examination and you can spare the time at the moment, stroll over to opposing counsel and engage in light conversation. Witness should say, "Nice day" or "Pleasant weather you are giving us," and if opposing counsel says, "Yes, indeed" proceed along the same lines, thus indicating clearly that your "savoir

faire" is getting proper lubrication and remains at high efficiency. Should opposing counsel say, "Perhaps" and look like a dry dill pickle, remark cheerfully, "Well, I suppose you and I are good for the rest of the day."

15. Witness should not conclude sentence with the words "and so forth and so on" because opposing counsel would be quite within his right to examine witness thoroughly as to the extent of his real knowledge concerning this important point and to continue "so forth and so oning" to the point of exhaustion of all concerned. Before this happens witness should explain that what he really had in mind was "so on and so forth," which is, of course, quite a different thing from the legal point of view. (*Hooch v. Cramps*, 365 U. S.)

16. At the close of the cross-examination do not grow apprehensive if the presiding officer comes to life long enough to say, "The witness is excused." Your natural feeling that you have done nothing requiring excuse is perhaps not as fully justified as you may feel, but nevertheless the presiding officer merely means that you are released from further questioning. You should, therefore, smile perfunctorily at the presiding officer who will, if his eyes are still open, smile perfunctorily at you and you may then stroll in a dignified manner

(Continued on page 15)

Present Day Credit Problems

A recent issue of the *Credit Executive*, which is published by the New York Credit Men's Association, contained an article by Colonel Montgomery with the above title.

The following paragraph in the article is especially timely:

Overconfidence has been the cause of the greatest credit catastrophes in the past. Just as surely as history repeats itself it will be the cause of those in the future. With increased buying power on the part of the public, increased tendency to stock up on the part of merchants and manufacturers, the tendency on the part of everyone to prefer property to cash, a general situation of overextension of credit is bound to come, and I think that the most important job the credit man has today is to do all he possibly can to prevent or to minimize this situation.

In concluding, the Colonel suggested consideration by the credit manager of the following questions for the purpose of appraising the effectiveness of the department which is under his direction:

1. Is the information being obtained sound and worthy of consideration?

2. Are audited statements of customers obtained at least annually?

3. Is the department doing its share towards the suppression of crime and abuses related to credit issuance?

4. Is the junior executive personnel as strong in its sphere as the top executive is in his?

5. Has a sound credit policy been adopted?

6. Has the executive staff a clear grasp of the principles and methods of granting credit?

7. Are credit losses reasonable and justified in securing the maximum amount of available profitable business?

8. Could the credit organization function successfully during the temporary absence of the department head?

9. Are the lines of authority clearly understood, and the promotion line plainly marked?

10. Have overlapping functions been segregated?

11. Is the clerical personnel efficient? Have files, systems of designation and "follow-up" been simplified to the fullest extent? Are they effective?

12. Are the contacts with debtors frequent and harmonious?

13. Has the direct influence of the sales department over credits been removed?

14. Does the credit department seek information from the sales department and cooperate with it?

Tax Joys and Sorrows

That the income tax was just as objectionable to most folk a century ago as it is today, but that it was also regarded as a necessary evil in defraying the cost of government, is succinctly stated in the following paragraph from a letter written by Lady Stanley of Alderley on March 18, 1842:

I think the income-tax is a very disagreeable thing, but so I do blue pills, rhubarb or castor oil, and as it does appear clear that a strong dose of help is necessary for the finances of the country, and that it cannot go on with half measures or experiments any longer, I would like to ask those who object to this Tax to point out another that would certainly answer as well; and if they cannot I should like them not to stir up a factious and useless opposition.

The Accountant (London) in one of its tax supplements contained the following under the intriguing title of "Where Paying Taxes Is a Joy":

According to *The Times*, a Resident Magistrate of Papua has stated that in one village 186 native taxpayers marched downhill three abreast, each clad in his cleanest garments, clutching a pound note and last year's tax receipt and solemnly circled the Court House before entering. Each then saluted the Magistrate, greeted him with a "Good morning," and clapped his hands delightedly. All were very jovial and obviously got a thrill out of taxpaying, to which they had looked forward for weeks.

The people of far-away Papua
Say, "Inspector, Oh, what a good chap-u-a!"
When he takes their money, they just think
it funny.
Blissful island, how right off the map-u-a.

British taxpayer, what a dull chap-u-a.
Do you rush to pay taxes like Papua?
When you pay E.P.T. why not do it with
glee

Instead of with groans, like the sap-u-a?

The resort to rhyme for the expression of tax sentiment is to be seen in America, as well as in England, as evidenced by the following verse which appeared in the "A Line O' Type or Two" column of the *Chicago Daily Tribune* of March 12 under the heading of "Annual Visitor":

I have a guest whom I extol
At ides of March,
He takes the sugar from my bowl
And leaves me starch.
He makes dependents seem to me
Like darling ducks,
Because each one is worth, you see,
Four hundred bucks.
And had I followed all my life
The Mormon code,
The saving would, on ev'ry wife,
Relieve the load.
My friend is destined to be great,
And in fame grow;
In muffled tones his name I state;
Form Ten Four O.

W. L. Hudson.

An optimistic reporter recently had an illustrated article in the *Newark Evening News* to which he gave the heading, "Income Tax Humor Eases Pain of Paying." After referring to the material for a study in human nature, which is afforded by the average American as he pays his wartime—and in many cases his initial—income tax at the federal building, the reporter

relates as follows some of the incidents which emphasized the human interest element in the tax situation:

For instance there was the elderly man who haltingly asked if he could make out a joint return with his wife. The overworked information clerk rattled off his stock question:

"Is she a citizen, non-resident, alien or resident alien?"

"Young man," the oldster snapped, "I'll have you know my wife is a mighty fine woman!"

First Time Payer

At a window where you can pay your tax either quarterly, semi-annually or in full, a youth in working clothes nervously fingered his papers. He looked as though he was a defense worker having his first experience with income tax.

"I owe 22 bucks," he said, "how do I pay it?"

The man in the cage said:

"You can pay a quarter if you want."

"Gee, that's fine," said the youth. He fished into his pocket, withdrew a 25-cent piece and bounced it on the counter.

Domestic Partnership

A young man wanted his forms:

"Gimme one for a partnership."

The clerk asked who the partner was and got the reply:

"My wife, of course. We share everything even."

The domestic side isn't always funny.

A young woman timidly approached an attendant. Behind her and looking very much like her husband, was an equally young man with a scowl to blacken the walls.

"Mister," she said, "I made out our income tax—my husband's and mine, I mean—and I paid it yesterday. Now we find out—I mean my husband does—that we paid \$30 too much. Can we get our money back, please?"

She was told they could, but that first a claim must be filed and another return made out.

Dependents

A minor commotion at one of the information desks arose when a clerk asked an applicant: "Income?"

"\$1660," was the reply.

"Children?"

"Eleven, and listen, mister, I got troubles enough without income taxes." He didn't pay.

A man of the old school wanted to claim an allowance on his brother, aged 50.

"Is he mentally or physically incapacitated?" asked the clerk. The heated answer was:

"He is all of that and more. The lazy loafer hasn't done a turn of work in 15 years!"

\$59 in Dimes

As thousands pass through daily, office personnel become hardened to the unusual. There was scarcely a stir at one window when a man paid a \$59 tax in dimes, a whole bagful of them.

Advice to Those About to Testify

(Continued from page 12)

to some prominent point in the room previously selected where you may await the congratulations of your associates.

17. It is customary to leave a

portion of your papers on the floor beside the witness chair and to retrieve them subsequently at any time when it will be more or less distracting to some later witness.

The L. R. B. & M. Journal

Published by Lybrand, Ross Bros. & Montgomery, for free distribution to members and employees of the firm.

The purpose of this journal is to communicate to every member of the staff and office plans and accomplishments of the firm; to provide a medium for the exchange of suggestions and ideas for improvement; to encourage and maintain a proper spirit of cooperation and interest, and to help in the solution of common problems.

PARTNERS

WILLIAM M. LYBRAND	New York	A. KARL FISCHER	Philadelphia
T. EDWARD ROSS	Philadelphia	WALTER B. GIBSON	Los Angeles
ROBERT H. MONTGOMERY	New York	CLARENCE R. HAAS	Philadelphia
JOSEPH M. PUGH	Philadelphia	WILLIAM F. MARSH	Pittsburgh
WALTER A. STAUB	New York	HOMER L. MILLER	Chicago
H. HILTON DUMBRILLE	New York	DONALD M. RUSSELL	Detroit
JOHN HOOD, JR.	Philadelphia	CONRAD B. TAYLOR	New York
HOMER N. SWEET	Boston	DON S. GRIFFITH	Seattle
THOMAS B. G. HENDERSON	New York	FRED C. DENNIS	Cincinnati
GEORGE R. KEAST	San Francisco	LOUIS D. KORK	Cleveland
PRIOR SINCLAIR	New York	ALVIN R. JENNINGS	New York
NORMAN J. LENHART	New York	CHRISTOPHER H. KNOLL	New York
DONALD P. PERRY	Boston	JOEL D. HARVEY	Boston
WALTER L. SCHAFFER	New York	ALBERT E. HUNTER	Boston
HERMON F. BELL	New York	HARRY H. STEINMEYER	Philadelphia
GEORGE R. DRABENSTADT	Philadelphia	CARL H. ZIPF	Philadelphia

MASSACHUSETTS

CARL T. KELLER Boston

TEXAS

ALBERT G. MOSS Dallas
J. F. STUART ARTHUR Dallas

EUROPE

ARNOLD T. DAVIES
FRANCIS J. H. O'DEA

VICTOR L. NORRIS
LEONARD C. DAVID

Natural Business Year

The work of emphasizing to the business world the importance of each industry or business using the fiscal year which appears best adapted to its circumstances, rather than blindly adhering to the calendar year, goes steadily on. The Natural Business Year Council continues its activity, and the natural business year committee of the American Institute of Ac-

countants has been working out a program of activity for 1942.

The Research and Statistical Division of Dun & Bradstreet, Inc. continues to issue from time to time bulletins, sponsored by the Natural Business Year Council, which set forth the results of studies of the year most suitable for different industries. The bulletins are con-

(Continued on page 20)

Notes

Following is a list of members of the L. R. B. & M. organization who, in addition to those reported in earlier issues of our JOURNAL, have entered the military services of the country:

Boston:

C. C. Hornbostel
J. Little
H. Lloyd

Chicago:

John R. Gash

Cleveland:

W. F. Merrifield
Aldrich Prech

Detroit:

W. G. Barnett
Glen Lewis
M. L. Mitchell
Norbert G. Schwartz
George E. Wyman

Los Angeles:

C. W. Linden
P. A. Brooksbank
H. K. Emerson

New York:

Haver E. Alspach
George L. Anderten
Ralph G. Dacey
William J. Farrington
Vernon M. Grout
Joseph J. Guidrey
Charles T. Hereford
George E. Hunt
William T. Lybrand

H. Robin MacLetchie
Robert H. MacPherson
Peter J. Shedden
George B. Talmage

Philadelphia:

Frank P. Bohn
John G. Cryer
William E. Cryer, Jr.
Edward M. Eddleman
Leon F. Hartley
Joseph P. Maksimow
Thomas E. Nunnally

Pittsburgh:

Thomas I. McFarland

Rockford:

James Plate

Saint Louis:

K. M. Pennington

The following note appeared under Activities of the Month in the January issue of *The Certified Public Accountant* regarding the work of a committee of the American Institute of Accountants of which Mr. Bell was acting chairman:

On December 5th a subcommittee of the committee on national defense delivered to the Army Exchange Service a report on accounting forms and procedures of Army Post Exchanges. The report, which is approximately 200 pages in length, is the result of over two months' work by the subcommittee and comprises a complete manual of accounts. Hermon F. Bell acted as chairman of the committee; J. P. Friedman and Fred M. Fisher are members.

Mr. Marsh was the speaker at the December 15 meeting of the Milwaukee Chapter of the N.A.C.A. held at the Wisconsin Club on the subject "Current Problems in Inventory Control and Valuation." Mr. Marsh acted as Chairman at the special meeting of the Pittsburgh Chapter held in honor of the past Presidents of the N.A.C.A.

Mr. Arthur led a round-table discussion on "Depreciation, Depletion and Amortization Practices" at the December meeting of the Dallas Chapter of N.A.C.A.

In January, Mr. Russell addressed the South Bend Chapter of the N.A.C.A. on the subject of accounting on government contracts.

The February issue of the *Journal of Accountancy* contained an article by Mr. Knoll on "Some Accounting and Auditing Aspects of the Investment Company Act of 1940." It was the full text of the lecture delivered by Mr. Knoll at the Seminar on Securities and Exchange Commission accounting recently conducted by Rectors University. The article was mentioned in the "Behind the Financial News" column in the *New York Herald Tribune* of February 7.

In view of the war in which our country has become engaged, the council of the Institute has voted to hold the 1942 meeting in Chicago

instead of in Miami, Florida, which had been chosen at the annual meeting in Detroit in September last. The meeting will be held from September 28th through October 1st at the Palmer House.

The following letter dated December 27, 1941 was received by Mr. Davies at our London office, from S. W. Brigden, formerly of the staff of that office. Reference to previous correspondence received from Mr. Brigden has been made in earlier issues of the JOURNAL.

As censorship has somewhat relaxed I am able to tell you something of my wanderings since I left East Africa. When I embarked from Massawa the temperature was 136 degrees in the shade and I had a very uncomfortable journey up the Red Sea—I didn't mind the heat but the lack of air nearly drove one crazy. My life until September was fairly uneventful, consisting mostly of desert training in mobile warfare. Indeed life became rather pleasant during August when we were stationed near Alexandria. I distinguished myself as a footballer for the first time in my young life; rugger being "verboden" because of the hard ground. The Powers that Be, however, soon found another job for us. In September we were rushed to Tobruk by destroyer to relieve some artillery there. Like so many other times the gods were with us and we arrived safely—you could have heard a pin drop when we nosed into that harbour; it was an erie experience and I shall never forget it.

Tobruk is not as the papers like to portray it: we were not attacked by tanks every day: we weren't always dive-bombed by 100 Stukas and we weren't living on starvation rations. Life there was hard: it meant a lot of hard work and sometimes

sleepless nights, but one gets used to anything in time. I think I have dug up half of the Tobruk area during my stay, but then one was often inspired, especially when the Stukas came over. They sometimes came over 50 at a time and then waved in the air (like a magician waving a wand I thought) over their target and then came down one after the other. The food was scarce and bulky was the staple diet, but we were extremely grateful for what we got—the Navy put up a very good show in supplying us so well.

Tobruk was the biggest battle I've been in yet; the Germans were very good but when we had counter-battery work we used to give them hell and always came off best, although we often took on big guns. Once when I was at an O. P. our troop commander blew up two guns sky high—did those Germans run!

I can't tell you where I am at the moment but I am still seeing life. We didn't have too bad a Christmas considering the circumstances, but it was by necessity a sober one.

There isn't much else to say at the moment: news apart from shop is very rare. My younger brother is now a pilot I believe and seems to be enjoying himself, but then the R. A. F. always can.

Please give my kindest regards to Mr. Norris and all at the office.

Widespread publicity was given by newspapers and magazines to Accounting Research Bulletin No. 13 on Accounting for Special Reserves Arising Out of the War, which was issued in January by the American Institute of Accountants' Committee on Accounting Procedure of which Mr. Staub is chairman. Both the *New York Times* and the *New York Herald Tribune*

contained special articles giving the gist of the bulletin and commenting on its recommendations.

The *New York Herald Tribune* of February 27 contained a full page appeal by 43 business and professional concerns of New York City, including our firm, for the fullest participation by every one in the financing of the country's war program, particularly through the use of the payroll savings plan for the purchase of defense bonds and stamps.

Colonel Montgomery continues his active interest in horticulture, about which he wrote so interestingly in his "Fifty Years of Accountancy." During the past winter he has been active in the interest of the Fairchild Tropical Garden in Coconut Grove, Florida.

The *New York Times* reported the following prizes as having been awarded to Colonel and Mrs. Montgomery during the Twenty-Ninth Annual Flower Show which was held at the Grand Central Palace in New York City, March 16 to 21, inclusive:

- March 16—Second prize for Primula, 6 Plants, Any Other Species; Third prize for Hydrangea, 3 Plants, Not to Exceed 10 inch Pots, in the Class of Plants in Flower (exhibits by private growers).
- March 18—Second prize for Dinner Table Decorations, with Spring Flowers predominating.

At the annual dinner meeting of the Illinois School Boards' Association, on January 22, 1942, Mr. H. C. Hawes gave a talk on the subject "School Budgets in War Time."

Mr. P. M. Armitage, of the Chicago staff, addressed a weekly luncheon meeting of the Tulsa Chapter of the Oklahoma Society of Certified Public Accountants in February 1942 on the subject of "Internal Control."

Dan H. Sanders and George B. Vasen, of the Chicago staff, both passed the November, 1941, Illinois C.P.A. examination.

Mr. George B. Talmage, of the New York staff, was among those whose names formed the "100%

Club" published in the February 10th issue of *New York Chapter N. A. C. A. News*. Those included in the 100% Club had attended all regular meetings of the Chapter from September, 1941 to January, 1942, inclusive.

The following were recently admitted to membership in the American Institute of Accountants:

Alvin R. Almquist
Thomas P. O'Connor
William A. Swift
Harry G. Thomas
Albert D. Battisti (Associate)

Messrs. Edward W. Higbee and Charles R. Roeder have been admitted to membership in the New York State Society of Certified Public Accountants.

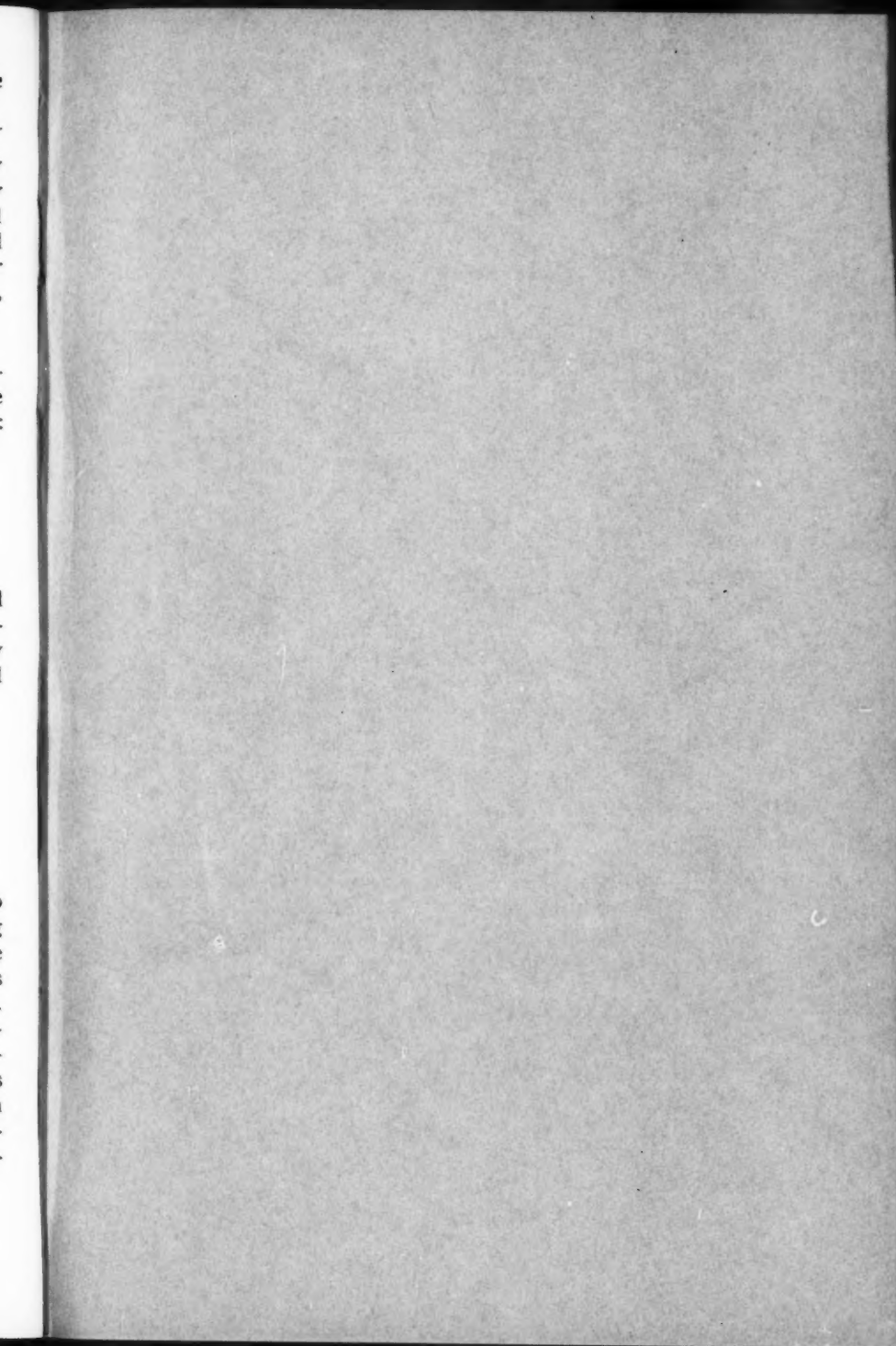
Natural Business Year

(Continued from page 16)

crete and practical, giving seasonal characteristics of sales, inventories, receivables and liabilities, and the fiscal closing dates of businesses in a given industry. Thus far, twenty-seven bulletins have been issued in this highly useful series.

It is paradoxical that, although American business men consider themselves as highly receptive to new and progressive ideas and uninhibited by devotion to mere

precedent, they have been slow to appreciate the desirability of using the natural business year in the many industries in which it does not coincide with the calendar year. Like many other worth-while projects which require continued educational effort, the natural business year campaign must be carried on in the spirit of the slogan, "Keeping everlastingly at it brings success."



Lybrand, Ross Bros. & Montgomery

Offices

<i>Cities</i>	<i>Addresses</i>
NEW YORK:	Downtown, 90 Broad Street Uptown, 1 East 44th Street
PHILADELPHIA	Packard Building
CHICAGO	231 South LaSalle Street
BOSTON	80 Federal Street
BALTIMORE	First National Bank Building
WASHINGTON	Investment Building
PITTSBURGH	Union Bank Building
DETROIT	Book Building
CLEVELAND	Midland Building
CINCINNATI	Carew Tower
LOUISVILLE	Heyburn Building
SAINT LOUIS	411 North Seventh Street
ROCKFORD	321 West State Street
ATLANTA	Healey Building
DALLAS	First National Bank Building
HOUSTON	Shell Building
SAN FRANCISCO	2 Pine Street
LOS ANGELES	510 South Spring Street
SEATTLE	Skinner Building

EUROPE

LONDON, ENGLAND . . . 3 St. James's Square, S. W. 1

